

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7016

BILL NUMBER: HB 1250

NOTE PREPARED: Feb 2, 2010

BILL AMENDED: Jan 28, 2010

SUBJECT: Capital Access Program.

FIRST AUTHOR: Rep. DeLaney

FIRST SPONSOR:

BILL STATUS: As Passed House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill transfers \$1,500,000 of the amount appropriated to the Indiana Economic Development Corporation (IEDC) in the current biennium from the purposes specified in the budget bill enacted in the 2009 special session to the purposes of the Capital Access Program. It provides for the State Budget Agency to identify, with the approval of the IEDC, which previously appropriated amounts are reappropriated to the Capital Access Program.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) *Indiana Economic Development Corporation (IEDC):* This bill provides that \$1.5 M will be transferred from the appropriations made to the IEDC for the biennium to provide funding for the Capital Access Program (CAP). The IEDC was appropriated \$6.7 M for each of FY 2010 and FY 2011.

(Revised) **Background Information - Capital Access Program:** CAP was created in 1992 under IC 5-28-29 to provide capital to small businesses. The program provides reserve funds to lenders to utilize as additional collateral to secure business loans. The IEDC indicates that the majority of the participating financial institutions are community banks. A participating financial institution must establish a reserve account in which premiums paid by borrowers, lenders, and the state on loans the institution enrolls in CAP are deposited. The money in the reserve account is to be used to back the CAP loans enrolled by the financial institution. If a loan is uncollectible and charged off by the financial institution, the money in the reserve account is used to pay the uncollectible loan.

Current statute requires that on CAP loans the borrower must pay a premium of 1.5% to 3.5% of the loan value, and this premium must be matched equally by the financial institution. However, current statute also allows for the financial institution's premium to be paid by the borrower. The IEDC indicates that the loan premiums (borrower and lender share) are typically paid by the borrower, so the premium range for the borrower is essentially 3% to 7% of the loan value. Under current statute, the state matches borrower and lender premiums at a rate of 100% to 300%, depending upon enrolled loan values and borrower type. The state matching funds come from the Capital Access Account.

Since the inception of CAP, 3,679 loans have been enrolled totaling about \$185.6 M, for an average loan of about \$50,000. The premiums paid on these loans have totaled about \$7.4 M, with the state match totaling about \$8.3 M. A total of 375 loans have been charged off, or about 22 on average per year. The claims against reserve accounts total about \$12.6 M, or about \$33,000 per loan. As of January 29, 2010, the balance in the state Capital Access Account was about \$3.4 M.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency; IEDC.

Local Agencies Affected:

Information Sources: Matt Tuohy, IEDC, 317-233-9138; Eric Shields, IEDC, 317-234-3997; Auditor's Data.

Fiscal Analyst: Jessica Harmon, 317-232-9854.